

NOTES

on

TRANSFER-OF-CREDIT AND GUARANTEED-BENEFIT-LEVEL PROPOSAL

- Some points you didn't want to lose track of.*
- If title to <sup>civil service</sup> annuity exists at the time of death, disability, or reaching retirement age, the employee and his family are retirement system customers; otherwise, they are social security system customers.
  - The benefit level we will be guaranteeing our customers is higher than that actually achievable by social security beneficiaries for a number of years to come--largely because the taxable wage base has been relatively low in the past and it will be some time before social security beneficiaries can match our high-5 average.
  - Benefits shown on the tables as being guaranteed will be the amount payable from the Retirement Fund ONLY if there is no entitlement to social security benefits; the amount payable from the Fund will be reduced by the amount of all social security benefits payable.
  - The shorter the Federal service in a given case (except in the case of a very young worker), the greater is the likelihood of outside employment creating social security entitlement.
  - When social security benefit levels are adjusted in the future, if we wish to match them we will have to (a) amend the retirement law and set a rational effective date for the change, and (b) take into account the cost-of-living adjustments which we have made in the meantime but which the social security system will not have made.
  - The proposal will raise 'normal costs--already at 13.86%--to 14.4%. Agency and employee retirement contributions rates, if we follow the concept recommended in the financing proposal, should therefore be raised to  $7\frac{1}{4}\%$ .
  - Refunds for service after June 30, 1966 will be much smaller, contribution rates will be higher, and many will get little or no benefit from the proposal. Inability to obtain full refund will be objectionable to many.
  - The tax equivalent is not a tax, and is not treated as such. However, many employees who will be paying social security tax on the basis of outside employment and from whose refunds we will withhold the tax equivalent will feel that they are paying double social security taxes. There may be opposition to the proposal because of this.
  - The "tax equivalent" will never be transferred to social security--what will be transferred is the proportionate amount of the cost of the social security benefit actually paid that is attributable to the Federal service.

Neither credit for service nor funds will be transferred until the risk actually matures--that is, the employee dies, becomes disabled, or reaches retirement age, and then only if he (or his family) has applied for QASDI benefits.

Withholding of the tax equivalent will have the effect of boosting the Retirement Fund balance in the early years; later, as funds are transferred from us to the social security trust funds, the situation will reverse and there will be a substantial drain on the Retirement Fund.

The service of an employee who has withdrawn, but not redeposited, his contributions, counts for everything except annuity computation purposes.

A disabled man with a wife and three children will get less than his widow and three children--because we would not pay for his dependents while he is living (our law does not give them entitlement) but would pay at social security levels for his survivors (our law does give them entitlement).

The guaranteed-benefit-level proposal may not do a great deal for the in-and-outers, because they will in many cases have acquired basic social security protection through their non-Federal employment.

The proposal will do nothing to raise the annuity of most long-service or higher-paid employees but, if they have surviving children and no social security entitlement based on other work, it could improve annuities for their children.

Our rates for children are payable in a fixed amount (usually \$660 a year) regardless of the employee's high-5, whereas the proposed legislation relates them to salary and fixes them at the same rate as the widow's. This accounts for the much higher benefit levels the proposal would produce for surviving families.

Administratively, BRI will have to adjust individual rates for widows with children when the last child becomes 18, again when they become 62; and for some employee annuitants when they become 65.

## SOCIAL SECURITY TAX RATES

Past and Future Tax Rates on Employees Under  
Present (and Past) Laws and as Currently Proposed (H.R. 5710)

	<u>Period</u>	<u>Maximum Taxable Earnings</u>	<u>Employee Tax Rate</u>		
			<u>OASDI</u>	<u>HI</u>	<u>Total</u>
<u>To Date</u>					
	1937-49	\$ 3,000	1 %	-	1 %
	1950	3,000	1.5	-	1.5
	1951-53	3,600	1.5	-	1.5
	1954	3,600	2	-	2
	1955-56	4,200	2	-	2
	1957-58	4,200	2.25	-	2.25
	1959	4,800	2.5	-	2.5
	1960-61	4,800	3	-	3
	1962	4,800	3.125	-	3.125
	1963-65	4,800	3.625	-	3.625
	1966	6,600	3.85	0.35%	4.2
	1967-68	6,600	3.90	0.5	4.4
	1969-72	6,600	4.40	0.5	4.9
	1973-75	6,600	4.85	0.55	5.4
	1976-79	6,600	4.85	0.6	5.45
	1980-86	6,600	4.85	0.7	5.55
	1987 and after	6,600	4.85	0.8	5.65
<u>Currently Proposed</u>					
	1968	7,800	3.9	0.5	4.4
	1969-70	7,800	4.5	0.5	5
	1971-72	9,000	4.5	0.5	5
	1973	9,000	5	0.55	5.55
	1974-75	10,800	5	0.55	5.55
	1976-79	10,800	5	0.6	5.6
	1980-86	10,800	5	0.7	5.7
	1987 and after	10,800	5	0.8	5.8